

May 4, 2006

## **WORKING CAPITAL FUND**

### **FY 2006 Second Quarter Report: Summary**

#### **I. Relation of Earnings to Expenses**

Based on our reviews, the Fund is on track for a break-even year in FY 2006. Earned revenue for the Fund has totaled slightly over \$49.7 million through the second quarter, on track for an annual level of approximately \$101 million, as forecast in Table III of the March bill. Business Expense for the same period was \$50.4 million resulting in net income of -\$0.7 million.

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2006 Second Quarter Cumulative Business Results</b> (in Millions)			
<b>TABLE I</b>			
<b><u>Business Line</u></b>	<b>Second Quarter Earnings</b>	<b>Second Quarter Business Expenses</b>	<b>Second Quarter Net</b>
Supplies	\$1.5	\$1.5	\$0.0
Mail	\$1.0	\$1.1	-\$0.1
Copying	\$1.2	\$1.0	\$0.2
Printing/Graphics	\$1.3	\$2.2	-\$0.9
Building Occupancy	\$32.2	\$33.5	-\$1.3
Telephones	\$4.4	\$3.9	\$0.5
Desktop	\$0.4	\$0.4	\$0.0
Network	\$2.9	\$2.3	\$0.6
Procurement Services	\$0.3	\$0.3	\$0.0
Payroll Processing	\$1.2	\$1.1	\$0.1
CHRIS	\$1.1	\$0.7	\$0.4
Corp Training Services	\$0.1	\$0.1	\$0.0
PMCDP	\$0.5	\$1.0	-\$0.5
STARS	\$1.7	\$1.4	\$0.3
<b>TOTAL <sup>1</sup></b>	<b>\$49.7</b>	<b>\$50.4</b>	<b>-\$0.7</b>

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<sup>1</sup> When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

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With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, historical building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. PMCDP implementation is proceeding in a manner to draw down balances accumulated in the first year. Specific differences in excess of \$50,000 are as follows:

- The Mail Business Line reported net earnings of -\$55,895 due to a 25% reduction of mail stops by customers and revenue impacts of this reduction. This situation occurred last year and the fund manager is allowing the business to use prior year reserves until the need arises to increase revenue. At which time the fund manager will constitute a working group to discuss alternatives and present findings to the Board.
- The Copy Business Line reported net earnings of \$229,980 through the second quarter due to the large number of color copies produced and reduced maintenance costs related to new central copiers. Color copies have high fixed costs and when the numbers increase, the positive net income exhibit disproportional increases.
- The Printing and Graphics Business Line reported net earnings of -\$854,278 through the second quarter. These losses are generally due to credits to prior year billing that reduced earnings, uncharged customer usage (to be billed in April) that also reduced earnings, and costs from FY 2005 that were not adequately accrued last year. These amounts are offset by FY 2005 extraordinary gains.
- The Building Occupancy Business Line had net earnings of -\$1,270,536 through the second quarter. This is due to costs related to long term projects, like the bathroom upgrade, where revenues were collected in past years, but costs are reported in current year. These losses are offset by profits earned in the past for a cumulative break-even.
- The Telephone Business Line had net earnings of \$474,313 through the second quarter due primarily to collection of revenues for depreciation without any actual depreciation cost and one-time cost savings. This adds to funds that could be available to support the infrastructure upgrades once a plan is presented to the Board.
- The Network Business Line had net earnings of \$635,454 through the second quarter, basically on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes and one-time cost savings. In addition, business line managers have consolidated some activities that are resulting in structural savings.
- Procurement Services had net earnings of -\$56,817, due to closing out contracts in the second quarter that generate less revenue. We expect the net to be zero at year end.
- Payroll had net earnings of \$62,375 as a result of reducing contractor support in the first half

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of 2006. The business expects some of this savings to finance additional contractor support in the second half.

- CHRIS had net earnings of \$349,910 due to a deferred capital equipment purchase, which is planned for the third quarter of FY 2006 and will be expensed as depreciation.
- PMCDP costs are estimated to be in excess of earnings by \$461,973, primarily due to the drawdown in balances obligated in the initial FY 2004 year; however, no change in pricing policy is needed.
- STARS experienced net earnings of \$336,371 in the second quarter primarily due to delayed spending related to the continuing resolution at the beginning of FY 2006. Financing is currently being deployed at a rate that should cause the business to break-even for FY 2006.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings downward by \$4.8 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted to offset the reverse billing for August/September usage billed in October/November. Expenses reported in STARS were increased by \$20.9 million in accruals plus another \$1.4 million in adjustments where accruals were inadequate.

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## II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By March 2006 we had collected \$94.6 million (including prior year funding) compared with the estimated \$101 million in FY 2006 annual revenues. The Fund Manager is working with customers to fully fund their WCF requirements as soon as possible.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2006 Second Quarter Cumulative Business Results (in Thousands)</b>			
<b>TABLE II</b>			
<b><u>Program Customer</u></b>	<b>Annual Estimate</b>	<b>Customer Advances<sup>2</sup></b>	<b>Difference</b>
Secretary of Energy Advisory Board	\$ 236	\$ 232	\$ - 4
Board of Contract Appeals	101	128	27
Bonneville Power Administration	187	N/A	N/A
Congressional & Intergovtl Affairs	722	702	-20
Office of the Chief Financial Officer	4,399	4,141	-258
Counterintelligence	1,212	1,346	134
DOE Representative to the DNFSB	128	121	-7
Economic Impact and Diversity	688	686	-2
Energy Efficiency	6,434	6,504	70
Environment, Safety, and Health	4,047	6,598	2,551
Energy Information Administration	6,978	7,299	321
Environmental Management	7,346	7,403	57
Fossil Energy	3,696	3,978	282
General Counsel	2,906	3,000	94
Hearings and Appeals	742	630	-112
Office of Human Resources	1,961	1,000	-961

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2 Customer advances include prior year customer advances. (see Table III).

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<b>WORKING CAPITAL FUND</b>			
<b>FY 2006 Second Quarter Cumulative Business Results (in Thousands)</b>			
<b>TABLE II (continued)</b>			
<b><u>Program Customer</u></b>	<b>Annual Estimate</b>	<b>Customer Advances</b>	<b>Difference</b>
Inspector General	1,582	1,627	45
Chief Information Officer	5,049	4,231	-818
Intelligence	3,087	3,315	228
Legacy Management	668	579	-89
Office of Management and Admin.	8,579	7,261	-1,318
NNSA	19,330	16,994	-2,336
Nuclear Energy	2,535	2,052	-483
Naval Reactors	330	138	-192
Office of Independence Oversight (OA)	749	41	-708
Electric Trans & Distribution (OE)	1,010	932	-78
Public Affairs	646	973	327
Policy and International Affairs	1,723	1,500	-223
CRWM	1,682	906	-776
Office of the Secretary	982	724	-258
Science	5,084	5,268	184
Security	4,628	4,264	-364
WAPA/SWPA/SEPA	1,085	N/A	N/A
Field Offices	0	N/A	N/A
<b>Total, Working Capital Fund</b>	<b>\$100,532</b>	<b>\$ 94,573</b>	<b>\$ -5,959</b>

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### III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines. Unlike the second half of FY 2005, automated controls have been reestablished in STARS.
- As shown in Table III, funds available exceeded obligations by an estimated \$ 47.2 million by the end of the second quarter. This was due largely to delays in acquiring customer funding and cautious behavior of the various businesses during the continuing resolution.

<b>WORKING CAPITAL FUND</b>					
<b>FY 2006 Second Quarter Cumulative Business Results (in Millions)</b>					
<b>TABLE III</b>					
<b><u>Business Line</u></b>	<b>Unobligated Balance <sup>3</sup> 10/05</b>	<b>Current Year Customer Advances</b>	<b>Total available for Obligation</b>	<b>Second Quarter Obligations</b>	<b>Advances Remaining to be Obligated</b>
Supplies	\$ 2.5	\$ 1.9	\$ 4.4	\$ 1.9	\$ 2.5
Mail	1.4	2.0	3.4	1.3	2.1
Copying	0.8	2.0	2.8	1.3	1.5
Printing/Graphics	1.3	1.5	2.8	2.0	0.8
Building Occupancy	6.1	52.7	58.8	33.9	24.9
Telephones	3.5	5.7	9.2	3.5	5.7
Desktop	0.0	0.8	0.8	0.3	0.5
Network	3.0	4.8	7.8	3.7	4.1
Procurement Services	1.4	-0.1	1.3	0.5	0.8
Payroll Processing	3.4	-1.4	2.0	0.5	1.5
CHRIS	0.2	1.4	1.6	1.0	0.6
Corp Training Services	0.5	-0.2	0.3	0.1	0.2
PMCDP	0.6	0.5	1.1	0.2	0.9
STARS	0.0	2.9	2.9	2.0	0.9
<b>TOTAL</b>	<b>\$ 24.7</b>	<b>\$ 74.6</b>	<b>\$ 99.2</b>	<b>\$ 52.0</b>	<b>\$ 47.2</b>

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<sup>3</sup> The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year.

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IV. Changes in Budget Estimates by Business Line and Customer

The \$3.8 million increase from the May 2004 to the December 2004 estimate for FY 2006 was the result of adding a new business to finance the Standard Accounting and Reporting System (STARS) \$3.5 million and \$0.2 million in building rent. Otherwise the FY 2006 billing estimates are reasonably aligned with prior estimates.

<b>FY 2006 Budget Estimates for WCF Businesses</b>		
Date	Process	FY 2006 Billing Estimate (\$Millions)
May 2004	FY 2006 Corporate Review	\$97.1
December 2004	FY 2006 Congressional Budget	\$100.9
April 2005	FY 2007 Corporate Review	\$100.9
December 2005	FY 2007 Congressional Budget	\$101.0
March 2006	March 2006 WCF Bill	\$100.5

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the second quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies in any businesses. However, the Board constituted working groups in the Desktop, I-Manage, Internal Control Reporting, External Independent Review, and Training businesses in addition to the long standing IT Operations working group to advise the Board of the need for new pricing policies related to FY 2008 projections. These groups should brief the Board in the yet to be scheduled May Board Meeting.

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## VI. Financial Management Systems Progress Working Capital Fund Billing System

The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS/STARS by the second working day of the month (a decrease of two working days). This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.

During the Second Quarter of FY 2006 the Fund Manager Manager's Office, with the help of Kathy Schanck, performed a process review with the Copy, Mail, and Printing businesses on their respective inventory reporting practices. The outcomes are documented procedures that include: the location of the inventory; the process for acquiring inventory; a description of the system used to manage inventory; the process for and the frequency of taking physical inventories; how to account for cost of goods sold and; how to account for obsolete, lost or wasted inventory. We will examine our inventory reporting during FY 2006 to determine its consistency.

**WCF Billing Performance**

